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ABSTRACT

Zero-base budgeting as it is used at Allegany College is described. Zero-based budgeting is defined as a budgeting and planning approach that requires the examination of every item in a budget request as if the request were being proposed for the first time. Budgets (decision packages) are first made up for decision units (i.e., a course for the instructional areas of the college) and a specific function or activity for the other areas. Each decision package is reviewed by a program budget manager who then recommends three budget levels (78 percent, 85 percent, and 92 or more percent) to the institutional dean. Although the dean has no limitation on the funding level of any particular program budget, he has an overall funding limitation for all of his programs of 85 percent of his current area budget. The next and highest level of review is the Budget Develcpment Committee. The dean recommends to the Budget Development Committee his priorities for additional funds for each program. Although there is no limitation on the funding level of any particular program budget, the committee has an overall funding limitation for all institutional programs of 92 percent of the total institutional budget. The strengths and weaknesses of the zero-based system are summarized. (SPG)

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ZERO-BASE BUDGETING:

AN INSTITUTIONAL EXPERIENCE

by

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ZERO-BASE BUDGETING:
AN INSTITUTIONAL EXPERIENCE

Operational Description of Incremental System

The budget development system used by Allegany Community College before the implementation of zero-base budgeting could be called incremental. Operationally, an incremental system is based upon a positive or negative change (primarily a positive change or an increase) in the value of one or more line items in a traditional operating budget. This change is based primarily on the value of, and the performance of, the line item in the previous year's budget. Philosophically, it is based upon the belief or assumption that we made it (or will make it) through this year without too many problems and in an acceptable fashion, so that a small inflationary increase for next year should "see us through" in an equally acceptable fashion.

This system does have its strong points. First of all, the belief or assumption as stated above has validity. The system possesses strength of historical perspective and performance, can be accomplished accurately, and because it inherently possesses the experience of time, can be accomplished quickly.

However, due to its basic incremental nature, the system does not provide an easy and natural opportunity for program cost review and program reconsideration. The question of need for past allocations and expenditures is not normally addressed in the standard procedure. The nature of line item based review does not lend itself to direct program or function cost analysis. In addition, because of the normal staff and faculty turnover, new members of the organization do not possess the experience of historical performance and, consequently, the understanding of incremental perspective.

And because the standard method involved the submission of requests by faculty and the granting of the final increment by top administration, it can be perceived as a "top-down" system.

Objectives of the Zero-Based System

Directly related to the weaknesses of the incremental system were three major objectives established by Allegany Community College for the new system of zero-base budgeting:

(1) To have a participative system of planning and budgeting that involves the entire organizational structure at various points in the process.

(2) To relate budgeting directly to individual programs/services.

(3) To build in flexibility in order to permit budget adjustments that are related to program/service needs.

Operational Description of Zero-Based System

Zero-base budgeting (ZBB) is a budgeting and planning approach which requires the examination of every item in a budget request as if the request was being proposed for the first time. In sharp contrast to the incremental budgetary systems now commonly in existence, ZBB challenges the traditional assumption that a program or activity deserves to be continued with the same or increased funding one year simply because it was funded the previous year.

The ZBB process begins with the identification of decision units. Allegany Community College defined a decision unit as a course for the instructional areas of the College, and a specific function or activity for the other areas. For example, English 101 would be a decision unit as would computer keypunching, and the College catalog. Via this process, approximately 400 decision units were identified.

For each decision unit, a series of decision packages is prepared. Decision packages are budgets that are comprehensive in nature and reflect the complete cost of operating the course or function. In preparing these decision packages, the College required three levels for each decision unit -- i.e., 78%, 85%, and 92% of the present fiscal year's funding. Additional levels above the 92% level were allowed to be submitted and in almost all cases were encouraged.

Having each of his decision units prepared in such a way, the budget manager (e.g., division chairman) then prepares a series of budgets for his or her division or area. This is done by aggregating different combinations of levels of the decision units.

Similar to the funding levels of the decision units, Allegany Community College required all budget managers to prepare three submission levels based on 78%, 85%, and 92% of the present fiscal year's funding for their particular institutional area. Levels over the 92% level were encouraged.

Diagram #1 illustrates this process of the development of a program's budget.

A budget manager develops these different area budget levels by utilizing all of his staff in a comprehensive analysis of the total costs of the particular operation for the current year. Analyzing his area's costs, overall operations, the relationship to other institutional areas, etc., the budget manager draws up these budgets, clearly and specifically delineating the consequences of each level.

The budget manager can assume that his budget is already "approved" at the 78% level before submission to the next level (Dean/President).

All instructional budget managers then submit all levels of their program budgets to their respective area dean who in turn performs a review of all

DIAGRAM # 1

DEVELOPMENT OF A PROGRAM'S BUDGET

I. DECISION UNITS IDENTIFIED

English 101	English 102	Speech 200	Drama 106	Spanish 107	Program Support

II. DIFFERENT FUNDING LEVELS PREPARED FOR EACH DECISION UNIT

English 101 78% Funding Level	English 101 85% Funding Level	English 101 92% Funding Level	English 101 100% Funding Level	English 101 110% Funding Level
78%	85%	92%	100%	110%

REQUIRED LEVELS

OPTIONAL LEVELS
(determined by Budget Manager)

III. DIFFERENT FUNDING LEVELS PREPARED FOR PROGRAM'S BUDGET
(Accomplished by aggregating different funding levels of each decision unit)

Program Sup. 78%	Program Sup. 85%	Program Sup. 92%	Program Sup. 100%	Program Sup. 110%
Spanish 107 78%	Spainsh 107 92%	Spanish 107 92%	Spanish 107 95%	Spanish 107 100%
Drama 106 78%	Drama 106 78%	Drama 106 85%	Drama 106 92%	Drama 106 100%
Speech 200 78%	Speech 200 85%	Speech 200 78%	Speech 200 92%	Speech 200 100%
English 102 78%	English 102 92%	English 102 100%	English 102 110%	English 102 110%
English 101 78%	English 101 78%	English 101 85%	English 101 92%	English 101 100%
78% Program Budget	85% Program Budget	92% Program Budget	98% Program Budget	105% Program Budget

REQUIRED LEVELS

OPTIONAL LEVELS
(determined by Budget Manager)

Therefore, three (3) required program budgets at the 78%, 85%, and 92% funding levels are prepared plus any number of increased program budgets (over the 92% funding limit).

programs in his area and decides on a funding level for each proposal. At this second level of review, the dean is restricted to a funding limit of 85% for his total area. Therefore, a specific proposal's funding may increase or remain the same, but the overall sum of all of the dean's recommended funding levels may not exceed this 85% limit. For example. one proposal might be accepted at the 92% level, a second may be accepted at the 85% level, a third could be accepted at the 105% level, while a fourth would be accepted at the 78% level.

All administrative and institutional activities that are not directly instructional in nature and which report to the President submit their budgets to him, and he perfomms a similar review with the same percentage funding limit (85%).

The deans and President then recommend levels of funding for any program proposal above their original restricted limit aggregate, and bring these recommendations to the Budget Developemnt Committee, which is the third and highest level of review. Therefore, if the dean had decided on the 92% funding level for a particular program proposal, he might recommend to the committee that his first priority for additional funding be the 103% level for that program, etc.

Each proposal submitted to the Budget Development Committee is thoroughly analyzed by each member who then casts his vote on each recommended additional funding level of each proposal. However, the members of the Committee must be placed under a realistic dollar limit in order that expeniitures "funded" do not exceed revenue projected. At Allegany Community College, the Committee was restricted to a dollar figure equal to 92% of the total institutional budget for the present fiscal year. This gave us 8%

to cover increased "fixed" costs and a salary package, within a projected stable budget situation.

Once each member of the committee votes on a funding level for each proposal, the results of the voting are summarized. This summary is then used as a basis for group discussion geared toward achieving group consensus regarding the funding for every proposal. Ideally, all proposals are ranked according to their merits, but this ranking is a difficult process to achieve. Finally, after the process is complete, the committee must identify the proposals that will be re-examined in the event that the projected revenue is not actualized and further cut-backs are necessary or additional dollars can be expended due to additional revenue.

Diagram #2 illustrates the three levels of program budget review.

Strengths of the Zero-Based System.

The strengths of this system are obvious. It is participative in nature, permitting each organizational level to make decisions. Such a system requires the development of program budgets which include all cost data. This provides all parties with a true cost picture for all college programs. The system makes it possible to make rational decisions about funding high-need, growing programs at increased levels, and funding lower-need, stable or skrinking programs at decreased levels. In every case, the consequences of the decisions are clearly delineated. Also, in all instances, broad participation is a part of the process. With the number of possible combinations of levels, flexibility is built into the system and college budget adjustments can be accomplished systematically.

Weaknesses of the Zero-Based System

One disadvantage or criticism of ZBB is the great amount of time, energy, and paperwork that must be devoted to the process. Also, some budget preparers, although they conform to the established institutional structure of required

DIAGRAM # 2

LEVELS OF PROGRAM BUDGET REVIEW

I. FIRST LEVEL OF REVIEW: PROGRAM BUDGET MANAGER

Limitations: Each Program Budget Manager is restricted to his 78% program budget at this stage of the review process.

PROGRAM A	PROGRAM B	PROGRAM C	PROGRAM D	PROGRAM E	PROGRAM F
78%	78%	78%	78%	78%	78%

Recommendations: The Program Budget Manager recommends his priorities for additional funding to the instructional dean.

II. SECOND LEVEL OF REVIEW: THE INSTRUCTIONAL DEAN

Limitations: There is NO limitation on the funding level of any particular program budget but the dean has an overall funding limitation for all of his programs of 85% of his current area budget.

PROGRAM A	PROGRAM B	PROGRAM C	PROGRAM D	PROGRAM E	PROGRAM F
78%	85%	92%	85%	100%	78%

Sum of total dollars approved is 85% of dean's total budget.

Recommendations: For each program the dean recommends to the Budget Development Committee his priorities for additional funding. I.e.:

PROGRAM A	PROGRAM B	PROGRAM C	PROGRAM D	PROGRAM E	PROGRAM F
78%	85%	92%	85%	100%	78%
1st priority: 92%	1st priority: 100%	1st priority: 103%	1st priority: 95%	1st priority 110%	1st priority 92%
2nd priority: 85%	2nd priority: 92%	2nd priority: 100%	2nd priority 92%	2nd priority 105%	2nd priority 85%
		3rd priority 95%			

III. THIRD LEVEL OF REVIEW: THE BUDGET DEVELOPMENT COMMITTEE

Limitations: There is NO limitation on the funding level of any particular program budget but the committee has an overall funding limitation for all institutional programs (functions and services, etc.) of 92% of the total institutional budget.

PROGRAM A	PROGRAM B	PROGRAM C	PROGRAM D	PROGRAM E	PROGRAM F
Final Funding 85%	Final Funding 100%	Final Funding 103%	Final Funding 95%	Final Funding 105%	Final Funding 78%

levels of budget support, still retain their basic incremental attitudes concerning their budgets. They assume that what is currently being performed is absolutely essential and, therefore, want to perform a detailed analysis only on increased levels. Another problem we encountered is that, although all institutional budget preparers must produce a 78% (or other low percentage) level, few if any will actually receive this lowest level of budgetary support. However, in order for budget managers to construct this funding level, most must either theoretically eliminate or cut-back their staff. Hence, the personnel involved in this cut have an element of anxiety placed upon them. Their continued employment rests upon decisions made in the second and third levels of review. Therefore, whereas in the past, only incremental increases were in real jeopardy, now the personnel involved in the performance of institutional functions and services are subjected to a degree of uncertainty concerning their continued employment.

Future Development

A truly effective zero-base budgeting process takes years to achieve, the first year being the most difiicult one. If the institution can weather the storm of this transitional year of ZBB implementation, most of the serious problems encountered in this initial year can be avoided in the following years.

An evaluation of the past year's zero-base budgeting experience at Allegany Community College is currently being performed in an effort to identify specific strengths, weaknesses, and suggested improvements for the next budgeting cycle (Fiscal, 1980). The overall reaction of the College community has been positive, and it is felt that these subsequent years of implementation will further refine the process into a truly effective budgeting and planning tool for Allegany Community College.